

PHILIPPINES ECONOMIC WRAP-UP

APRIL 8-14, 2000

Summary

A flurry of legislative activity this week, before Congress takes its Easter break, saw several significant economic reform bills, including power sector, banking and securities reform, as well as a new e-commerce law take major steps forward. The government denies it has defaulted on a loan guarantee to a U.S. financial institution, saying there was never was a guarantee (and that there may have been significant fraud on the part of the Filipino borrower). We also provide some banking notes.

These weekly reviews are available on the Embassy's web site (<http://www.usembassy.state.gov/manila>). We will not publish next week (April 15-21), however, due to local holidays. A longer and more detailed review of the Philippine economy can also be found on our web site in the Embassy's January Economic Outlook. Feedback on these reports is invited via e-mail to "SchwartzTP@state.gov".

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Market and Policy Developments

FOREX REPORT

The Philippine peso continues to bounce around in a narrow band just below P41/US\$. Socioeconomic Planning Secretary Felipe Medalla noted that higher oil prices have led to increased demand for dollars, yet the peso has not depreciated significantly as oil prices rose. He suggested, however, that the peso could recover somewhat (toward P40/US\$) as oil prices sank back to \$19/bbl or lower. Overall the peso, which closed at P41.105/US\$ on April 7, ended the week at P41.170 on April 14.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
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MAR 06	40.854	40.900	167.7
07	40.923	40.980	163.5
08	41.042	40.985	223.9
09	40.957	40.975	181.0
10	40.923	40.890	206.8
MAR 13	40.859	40.865	138.0
14	40.907	40.935	155.6
15	40.937	40.930	158.6
16	40.954	40.940	185.9
17	40.932	40.963	153.5
MAR 20	40.957	40.960	87.0
21	40.961	40.963	140.3
22	40.915	40.895	240.6
23	40.867	40.870	252.6
24	40.897	40.930	190.2
MAR 27	40.951	40.955	117.2
28	40.943	40.948	214.7
29	41.008	40.995	209.8
30	41.063	41.075	219.6
31	41.086	41.135	120.0

APR 03	41.147	41.135	197.5
04	41.174	41.150	158.6
05	41.172	41.130	150.5
06	41.129	41.120	163.0
07	41.093	41.105	128.6
APR 10	41.115	41.105	132.5
11	41.104	41.117	139.0
12	41.157	41.180	187.0
13	41.166	41.155	140.3
14	41.157	41.170	49.0

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Interest rates declined slightly at the April 10 Treasury bill auction -- the consecutive decline -- but the small drop suggests the bottom is near. Rates on the 91-day T-bills declined 8.3 basis points to 8.760%. Rates on the 182-day T-bills declined 0.9 basis points to 9.376%, while rates on the 364-day bills dropped 0.1 basis points to 10.391%. Demand was fairly heavy and the Bureau of Treasury sold all of the P4 billion in T-bills on offer.

Rates on the government's five-year bonds dropped by 75 basis points to 12.75% at the April 11 auction (from March 14). Demand was heavy, with than P12 billion in bids for the P3 billion of bonds on offer. The Treasury made a full award.

----- Domestic Interest Rates (in percent) -----

Treasury Bills

Auction Date	91 days	182 days	364 days
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MAR 06	8.996	9.732	10.673
MAR 13	8.997	9.750	10.757
MAR 20	8.982	9.757	10.787
MAR 27	8.912	9.475	10.500
APR 03	8.843	9.385	10.392

APR 10	8.760	9.376	10.391
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Source: Bureau of the Treasury

Prime Lending Rates of 18 Expanded Commercial Banks

Date of Survey	Average	Range
MAR 09	11.2157	9.50 - 13.500
MAR 16	11.2353	9.50 - 13.500
MAR 23	11.2367	9.50 - 13.500
MAR 30	11.2033	9.75 - 13.500
APR 06	11.1758	9.75 - 13.500
APR 13	11.1366	9.50 - 13.375

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The rally on the Philippine stock exchange was fairly short-lived and shallow, as results this week show. The market, which leapt 6.21% in four days of trading between April 5 and 10, settled back this week on profit taking and low volumes. The 33 share Philippine Stock Index (PHISIX) ended the week at 1712.54; its April 7 close was 1738.49.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
MAR 06	1738.30	2249
07	1686.72	2127
08	1639.79	2171
09	1626.95	2610
10	1621.62	2910
MAR 13	1602.96	3049
14	1633.33	1601
15	1638.60	2033

16	1629.97	1749
17	1646.28	1859
MAR 20	1657.07	1373
21	1651.40	2047
23	1646.91	2199
24	1680.58	2256
25	1681.71	2209
MAR 27	1697.25	2280
28	1701.08	1857
29	1691.14	6015
30	1697.81	1471
31	1681.72	1686
APR 03	1688.32	976
04	1682.53	1070
05	1691.05	2634
06	1713.24	1079
07	1738.49	1223
APR 10	1796.66	1425
11	1757.45	1241
12	1744.57	974
13	1725.98	1107
14	1712.54	1293

Source: Philippine Stock Exchange

GSIS CLAIMS FRAUD, NOT DEFAULT

Bear Stearns and AON Financial Services of the United States are claiming that the Philippine government has defaulted on its guarantee of a \$10 million loan they made to local property developer, Ecobel Land. They claim that they had received a surety bond from the government owned Government Service Insurance System (GSIS - the civil service pension fund) for the loan. When Ecobel defaulted in March, AON asked GSIS to pay out the guarantee; GSIS declined and so AON wrote the Philippine Department of Finance with a similar demand. GSIS explains that they had cancelled the bond at least one week before Ecobel drew down the loan with Bear Stearns; they also are investigating former and current

GSIS officials for potential fraud in the matter. GSIS and the Philippine government both have reiterated that a GSIS surety bond does not constitute a sovereign guarantee.

ENERGY RESTRUCTURING PASSES ONE HURDLE

The House of Representatives, after a marathon 20-hour session, passed House Bill 8457 (the Electric Industry Reform Act). The bill, which has been pending in one form or another for almost 4 years, provides for the break-up and privatization of the National Power Corporation, the government owned electric utility. NPC's transmission system will become a separate government owned and regulated monopoly, which may eventually be privatized. NPC's generating plants, will be divided into seven separate "companies" and sold off to private investors. The bill further takes P250 billion worth of debts of the NPC books and transfers them to the national government; this should pave the way for a mandated reduction in power rates. The bill will also strengthen the powers and independence of the Energy Regulatory Board, and provides for open access and other elements necessary for an efficient and free market for energy. The Senate is not taking the House's "omnibus" approach, and has broken the bill into five parts. Two of the Senate's bills have passed and three are still in committee.

HOUSE PASSES SECURITIES BILL

Just before adjourning for a three-week break on April 12, the House of Representatives passed House Bill (HB) No. 8015, a proposed "Securities Act of 2000". The Senate had passed its own version in late 1998 as Senate Bill (SB) No. 1220. The bills have important differences, given the rapid development in capital markets and the new challenges faced by regulators. The bills the Revised Securities Act of 1982. A desire to restore market confidence in the wake of the BW Resources scandal finally accelerated long-pending action in the House. The two bills' will now go to a bicameral conference committee.

Congressional staffers told the Embassy that the House bill reflects some of the benefits of hindsight from the BW Resources brouhaha. Among others, HB No. 8015 would:

- Expand the definition of various forms of market manipulation;
- Provide for the independence of the SEC from any governmental agency except the courts;
- Open the stock exchange to non-broker ownership by capping voting rights of any one industry/business group to 20%;
- Impose minimum paid-up capital requirements for brokers and dealers (in addition to current net capital and other trading limits);
- Segregate broker-dealer functions (except for specifically allowed transactions); and
- Stiffen penalties for securities violations.

LEGISLATURE RATIFIES NEW GENERAL BANKING ACT

Both houses of Congress also ratified a bicameral conference committee report which essentially rewrites the country's more than 50-year old General Banking Act. The bill provides for tighter disclosure requirements; stricter rules on bank transactions with directors, officers and related interests (DOSRI); legislated limits on loans granted against real estate; and explicit authorization for the Bangko Sentral to discipline erring bank officials. The bill would also pave the way for the Bangko Sentral to adopt risk-based capital ratios according to Bank of International Settlement standards.

The ratified bill adopted the Senate's more liberal provision on foreign ownership. Subject to the criteria and requirements outlined in the 1994 Foreign Bank Liberalization Act, the ratified bill would allow a foreign bank to acquire up to 100% (versus 60% currently) of one locally incorporated bank within seven years from the law's effectivity. The House version allowed 100% foreign acquisition in distressed banks only.

SENATE PASSES E-COMMERCE BILL

On April 10, the Senate passed E-commerce legislation, based in large part on the UNCITRAL model law on e-commerce. The Senate bill, SB 1902, also includes provisions to criminalize "hacking." A provision on the liability of Internet service providers (ISPs) for copyright infringement was dropped. One last-minute amendment inserted a provision taxing E-commerce transactions. Also added was a reciprocity clause stating that the bill's "benefits" shall apply only to companies whose country of origin accords similar benefits to Filipinos. Legislation is still on the floor in the House, and is expected to be debated after Congress returns from its Easter break, in mid-May. The bill pending in the House includes language on ISP liability, but no provisions on taxation.

BANK NOTES

Far East Bank Shares Delisted: Far East Bank and Trust Company's (FEBTC) shares were delisted from the stock exchange this week, formalizing the bank's merger with Bank of the Philippine Islands (BPI). Some 594 million FEBTC shares were replaced by 416 million BPI shares. The marriage between the two banks makes BPI the country's largest commercial bank. Metropolitan Bank and Trust Company (Metrobank) appears bent, however, on retaining bragging rights as the country's number one banking institution -- working to complete its acquisition of Solidbank.

Capital Build-Up Status: According to Bangko Sentral officials, about 200 of the country's 976 banks did not meet the latest round of minimum capital hikes required as of end-January 2000 (extended from the original December 1999 deadline). The list includes 16 of the country's 52 commercial banks, some 40 thrift banks and more than 140 rural banks. The banks would be covered under a "prompt corrective action program" instituted by the Bangko Sentral in late 1998. A few banks have reportedly already applied for license downgrading. The numbers hint of greater consolidation in the banking

sector, with banks facing yet another round of capital increases which go into effect by the end of the year.